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Goldman Sachs on what 2025 might bring for markets
By Rob Burgess
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With a whirlwind of market-moving headlines to close out 2024, Goldman Sachs Asset Management peered into the future as it presented its 2025 Investment Outlook.

With interest rate cuts, geopolitical risk and post-election policies, GSAM experts asked — and answered — what next year might look like for the macroeconomic environment, the health of the consumer and market, opportunities across the private markets and more.

How the election results will affect consumers in the coming year
Ashish Shah, global co-head and chief investment officer of public investing within Goldman Sachs Asset Management, said during a Nov. 20 webinar the economy is in a soft landing phase where U.S. economic growth remains resilient through 2025. He said he continues to see stabilization, with inflation almost getting back to the Federal Reserve's target. He said the labor market has normalized, which he said was supported by the Fed's recent 75 basis point cuts.

But, then there's the results of the recent election to consider.

"Having said that, we've just had a political event in the U.S. where the Republican sweep raises the prospects of kind of a wider set of outcomes on the fiscal side and creates the potential for both upside risk to growth as well as, potentially, increases the probability that inflation stabilizes at a higher rate, if not accelerate," he said. "That's going to be something that we watch very carefully, and it has the potential to change the pace of the Fed path that we are anticipating, which markets have priced."

Zooming out for a more global perspective, Shah said geopolitical uncertainty remains high. This can have a meaningful impact on commodities like energy. However, the U.S. has a high amount of oil capacity.

"So shocks there have to be quite meaningful to be impactful to the global economy," he said.

Domestically, Shah said, GSAM would be watching the labor markets closely to see how any changes in policy might impact the availability of labor and, importantly, wages.

"We currently believe that the consumer is back to normal," he said. "When prices go up, the consumer is trading down. The average consumer has been accumulating debt. And those statistics look very similar to what we would

consider normal and are driving the normal types of behavior we saw pre-pandemic."

What does the future hold for the markets in general?
The market has reacted strongly to Trump's reelection, as certain sectors that are seen as benefiting from policy changes have seen sudden growth.

Alexandra Wilson-Elizondo, managing director in multi-asset solutions within Goldman Sachs Asset Management, said she had seen some giveback in what is commonly referred to as the "Trump trades."

"We think that there's an additional delta between what we'll refer to as Trump 1.0 and Trump 2.0, in terms of the timing and the release and then the ultimate sequencing of things," she said. "That is going to give the market a little bit of digestion issues."

Wilson-Elizondo said the first quarter of 2025 would be "a show me, don't tell me time," to see which kinds of trades are valuable in that backdrop. She said overall GSAM remains bullish as resilient growth remains intact.

"There is a high level of variability around the known unknowns, but we do see a lot of strength in the consumer as well as ultimate earnings power over time," she said.

Even as Trump plans to roll back regulations, Wilson-Elizondo said that could take time to materialize in the markets.

"These are very large institutions, they don't necessarily move overnight as it relates to deregulation," she said. "There are some important follow-throughs in terms of mechanics."

What changes will private markets see in 2025?
Jeffrey M. Fine, global co-head of alternatives capital formation within Goldman Sachs Asset Management, said private markets had been held captive by prolonged high interest rates for most of the year.

"The good news is the soft landing that we've all experienced and more cooperative capital markets than we might have anticipated led to much less of a distressed cycle," he said. "We are seeing deal volume this year increase across almost all categories. We saw a lot of capital organized in places like private credit and secondaries that were more liquidity-driven to backfill where there were gaps. ... Which is sort of the way that our markets tend to work."

Fine said GSAM expects that deal volume will continue to increase, and for 2025 to be an important year for transaction activity as legacy owners look to divest.

"Before a couple of weeks ago, there was a pretty clear glide path to where terminal rates were going to settle, which is enormously supportive to investors'

ability to call a bottom and to think about valuation," he said. "We expect continued divestment out of legacy portfolios, which is going to create interesting opportunities."